

CornTalk

Kimball Family
Callaway, Nebraska

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FALL 2012

DROUGHT:
Turns Promising Year
Upside Down

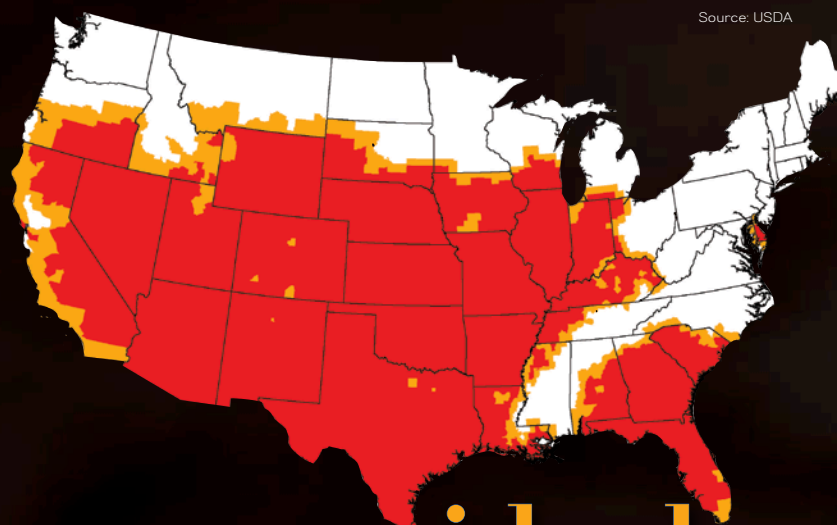
Food Prices
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Farm Bill = Food Bill
{ And More! }

Nebraska's
Family Corn
Farmers

By the third week of August, 1,692 counties in 35 states had been designated drought disaster areas by the U.S. Department of Agriculture.



DROUGHT

turns promising year upside down

Hard, cracked ground meets Alan Tiemann's boots as he walks through one of his cornfields that he can't irrigate. This dryland cornfield near Seward may yield 75-90 bushels per acre, about 60 percent of normal. That may turn out to be pretty good compared to some dryland acres with yields in the 20-40 bushel range—or less.

Things didn't look so dire in late May.

Meteorologists at the National Weather Service in Hastings said the region had the warmest spring on record. March set a record across the country, while April was the third warmest and May second warmest. That warm weather let farmers like Tiemann start fieldwork early. That's generally one indicator for good yields.

Average growing season weather would have led to a tremendous corn crop, perhaps the largest in history. Then heat arrived — and rain didn't. From late May to mid-July, just six or seven weeks, is all it took for a promising year for farmers and ranchers to disappear.

Meteorologists in Hastings noted that on June 5 the Ord area was not considered to be in a drought. By August the area was in an exceptional drought, joining an area across the country that rivals the 1930s in terms of land mass covered.

In Nebraska, about 70 percent of the state's corn crop receives supplemental water through irrigation. Nationally, however, only 11 percent of corn is irrigated.

"Every farmer wants to have a big crop at harvest," said Tiemann, who is a member of the Nebraska Corn Board. "While I expect near normal yields on my irrigated land, you can't help but think about the thousands of farmers who don't have that option."

He noted that poultry and livestock producers will also face challenges as the smaller grain and soybean harvest will lead to higher prices for feed. "Other big challenges come for cattle producers who've seen tens of thousands of acres of pastures dry or burn up," he said. "Most of a cattle's gain is on forage. Cattle need it to thrive."

In addition to dried up pastures, farmers face higher costs for keeping their animals watered. Those who have irrigation for crops saw significantly higher costs this year.

In a report, Dr. Bruce Johnson, an agricultural economist at the University of Nebraska—Lincoln, said Nebraska's production agriculture this year will see "a very substantial pull-back" in income from record levels experienced in 2011. He said early projections indicate farm income will be 10 percent below the five-year average and about 35 percent below last year. That income, however, will be distributed unevenly across geographic regions and sectors of the state's economy, he said.

"This cut in income will impact a lot more than just farmers," Tiemann said. "Ag output plays a tremendous role in the state's financial wellbeing as a whole, and the drought will hit on many levels. Right now, the best we can hope for is a change in the weather pattern to get pastures growing again and to recharge the ground ahead of spring planting."

DROUGHT NUMBERS

At different times during the summer:

- 63% of the country's hay acres were experiencing drought
- 93% of Nebraska pasture and rangeland were in poor to very poor condition
- 71% of the nation's cattle acreage was in an area experiencing drought
- 89% of the country's corn was in an area experiencing drought
- 88% of soybeans were in a drought area

DROUGHT IMPACTS BEYOND THE FARM

- Water restrictions in some communities
- West Nile virus threat from mosquitoes that thrive in hot, dry weather
- Fish die due to lack of water, warm temperature
- Households spend more on utilities
- Inability to ship products via waterway
- Wildlife suffer, die due to lack of water, food
- Risk of wildfires
- Loss of wetlands
- Plants, trees face disease pressure
- Trees, especially young trees, die
- Economic development put on hold
- Air quality effects due to dust, pollutants

BURNED LAND

Places with names like Fairfield Creek, Wentworth, Eagle Canyon, Glen Echo, McKeage and others became known for more than just sweeping pasture and rangeland when fires blackened the ground.

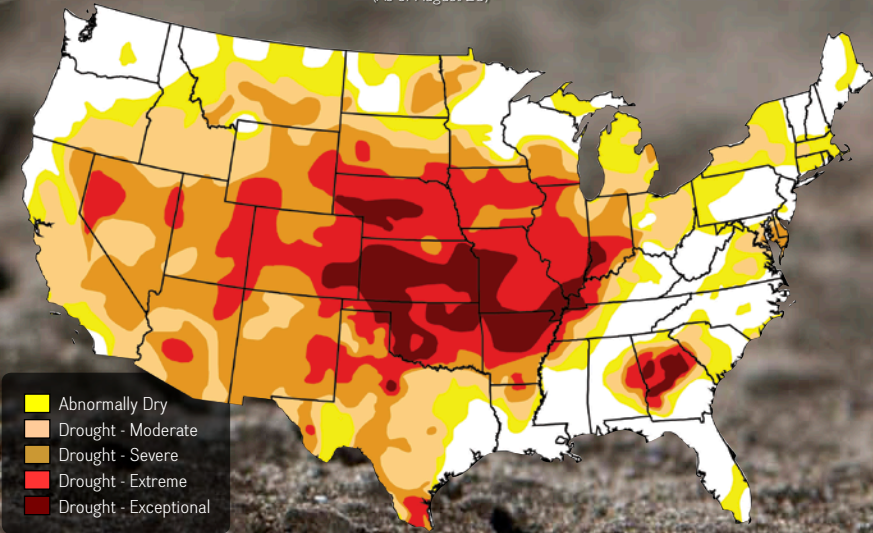
Tens of thousands of acres burned. Outbuildings, calving sheds, stocks of hay and some homes destroyed. Millions of dollars spent in battling fires – and untold costs to families having to rebuild structures, miles of fences and cattle herds.

During a drought, a lightning strike, accident or careless act can lead to significant damage – and danger for people and livestock. Certainly Nebraska had its share of fires this year.

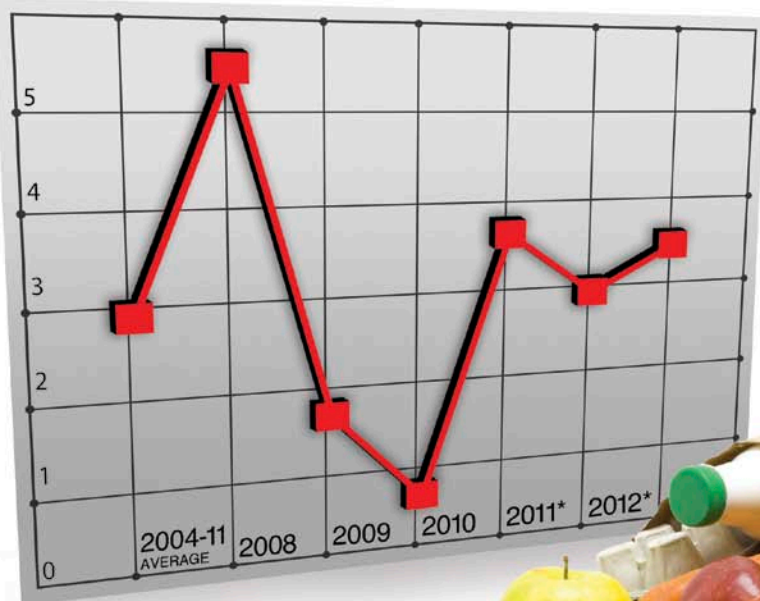
Land that didn't burn by fire was burned by heat and drought. More than 90 percent of the state's pasture and rangeland are in poor to very poor condition. Grass hay and alfalfa prices have soared, in some cases doubling due to short supplies, and significantly increasing the cost for beef and dairy cattle producers.

Forage is a key feed ingredient for cattle, as beef cattle, for example, gain 70 percent of their growth on grass and hay.

U.S. Drought Monitor
(As of August 23)



Historical Food Price Inflation



*Forecast as of July 2012
Source: USDA

What it means: Food price inflation is expected to be close to the historical average this year and just slightly above that next year.



Nebraska and much of the country's farmers were looking at record crops at the end of May. Just a few weeks later that changed and the conversation shifted from how terrible the drought was for farmers to how it may cost everyone more to buy food next year.

Suddenly food prices were going to "skyrocket" and recycled headlines put the blame on higher priced corn – not the drought. Yet that begs the question: Is corn really that much of a driver in food prices?

Yes, corn may be in many foods, but it makes up a very small part of most foods and an even smaller portion of what we pay at the store.

Corn flakes are a perfect example.

When corn is \$5.00 per bushel, there's only about 7 cents worth of corn in an 18-ounce box of cereal. When corn prices jumped to \$8.00 during the drought, the value of the corn in that cereal box only increased to about 11 cents. In other words, \$2 spent on a lottery ticket could buy enough corn to make 18 boxes of cereal.

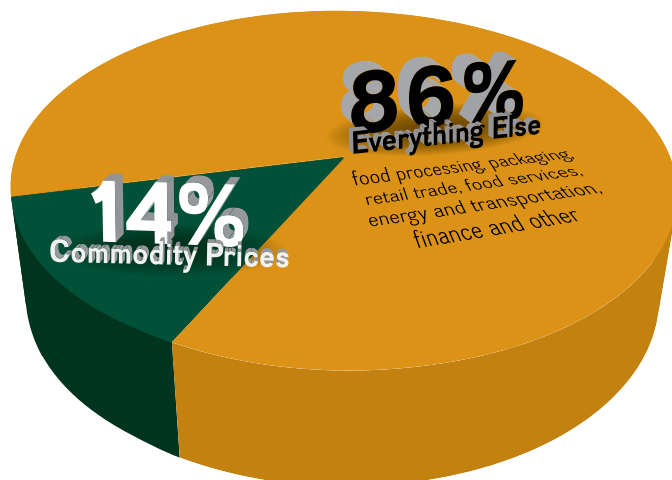
The reality is, the diesel fuel needed to deliver a semi-load of corn flakes to the store costs more than the corn in the box. When combined with all the other expenses involved in making and marketing the cereal, it's easier to see how the price of corn has little impact on a box of cereal that costs \$3.50 or more in the store. Energy and oil prices especially have a significant impact on food prices.

"While the drought certainly is impacting corn and corn prices, it's also impacting every sector of agriculture," said Tim Scheer, a

Food prices to 'skyrocket'? Let's

What Affects Your Food Dollar

Source: USDA



**86%
Everything Else**
food processing, packaging,
retail trade, food services,
energy and transportation,
finance and other

What it means:
Commodity prices
are just one of many
factors affecting
food prices.



farmer from St. Paul and chairman of the Nebraska Corn Board. "Farmers who rely on pasture and hay are facing significant difficulties. That's critical for cattle producers because 70 percent of beef cattle's growth is forage-based."

Other products that make up livestock feed are also priced higher because of the drought, making feed costs a challenge for livestock producers. "It's not just corn, it's not just hay. It's just about everything," Scheer said. "Unfortunately that's what happens during a drought, and it is likely meat prices will move higher at a greater percentage than other foods next year because of that."

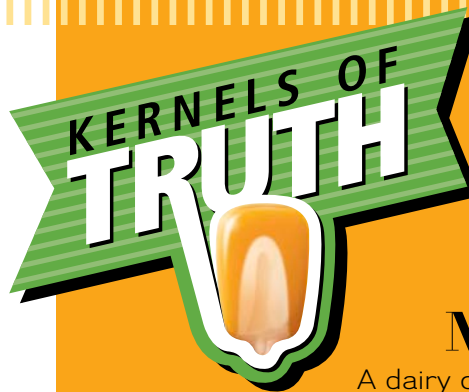
The same thing happened during the last widespread drought in 1988.

Yet in the end, corn, like all commodities, has little impact on overall food prices. As the U.S. Department of Agriculture points

out, commodity prices make up just 14 percent of the cost of food and despite the drought, food price inflation will be less in 2013 than it was in 2011.

"This just shows there is a lot going on that impacts the price of food. Yes, corn may be priced higher, but other commodities may be priced lower and offset that," Scheer said. "Saying high-priced corn is going to drive up the price of everyone's grocery bill oversimplifies things and certainly overstates corn's role in overall food prices, especially when high energy and oil prices impact every food product at every step of the process."

The bottom line, Scheer added, is that even with the worst drought in 50 years, there will be an incredible amount and variety of food available and the United States will still enjoy the safest, most abundant food supply in the world.



Note: Cents are based off corn at \$8 per bushel.

Milk

A dairy cow eats about **25 cents** worth of corn to produce a gallon of milk.



Corn Flakes

An 18-ounce box of corn flakes contains about **11 cents** worth of corn.



Soda

There's about **13 cents** of corn (as a sweetener) in a 2-liter bottle of soda.



Beef

There's about **37 cents** worth of corn in a pound of hamburger.



look.



Involved in agriculture?

Make plans to come to Nebraska Ag Classic!



December 11-12, 2012

Mid-Town Holiday Inn • Grand Island
neAgClassic.com

- Dynamic speakers
- Awards ceremonies
- Organization annual meetings
- Great networking



The import share of oil demand and the volume of oil imports in the United States will fall below 1990s levels, largely due to rising domestic shale oil production and ethanol displacing crude imports.

Oil giant BP, January 2012

What's the RFS?

In 2007, a bipartisan Congress passed the Energy Independence and Security Act, which updated the Renewable Fuel Standard (RFS). The RFS was originally created with the Energy Policy Act in 2005, the first comprehensive energy legislation enacted in more than a decade.

There was strong support in Congress and across the country when the 2005 Energy Policy Act and 2007 Energy Independence and Security Act were passed. After all, the country was seeing very high oil prices and citizens grew weary of sending military men and women into harm's way to keep oil shipping lanes open.

There was also general agreement that it made sense to keep hundreds of billions of our energy dollars at home instead of sending them to countries who may not appreciate the freedoms we enjoy.

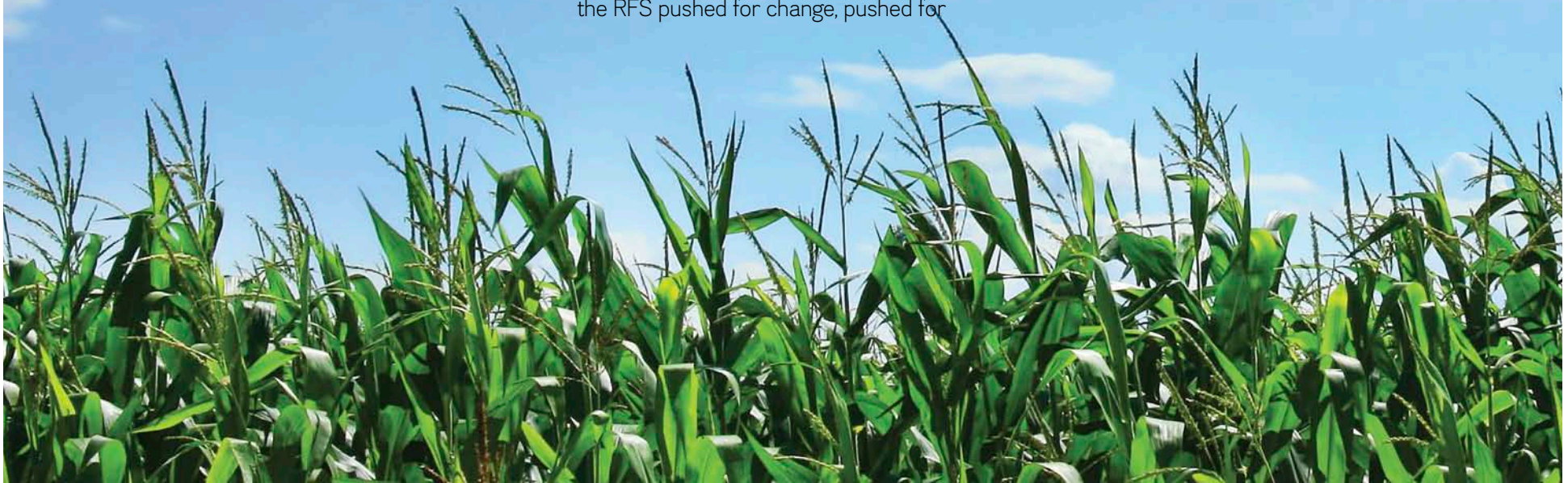
"Congress and President Bush recognized that the only way to diversify our fuel supply was through the RFS. Ethanol competes with petroleum, and oil companies really didn't see the point in allowing their fuel stations to sell an alternative, even if it was renewable and better for the environment," said Nebraska Corn Board member Jon Holzfaster, a corn and cattle farmer from Paxton. "In essence, the RFS pushed for change, pushed for

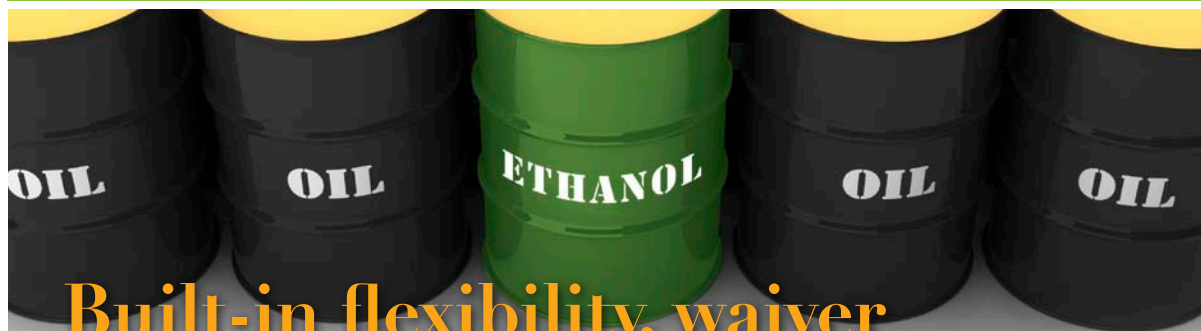
diversification of our fuel supply away from the monopoly of oil."

The RFS requires a growing amount of biofuels be used in the fuel supply each year through 2022. It requires 13.2 billion gallons this year in the form of corn-based ethanol, and a smaller amount of "advanced" and cellulosic biofuels, which can come from sorghum, grass and other feedstocks. In 2022, the goal is to have 36 billion gallons of biofuels, with less than half, 15 billion gallons, coming from corn-based ethanol.

Last year, the United States used about 13.9 billion gallons of ethanol, which helped reduce the need for imported oil by 485 million barrels. That saved Americans nearly \$50 billion in oil imports.

Holzfaster said American-made ethanol last year contributed more volume to our fuel supply than the gasoline refined from oil imports from Saudi Arabia, Iraq and other OPEC nations.





Built-in flexibility, waiver

Part of the RFS rules include a waiver process that allows fewer gallons of biofuels to be used should there be significant reason or economic harm to the country.

For example, the Environmental Protection Agency (EPA) this year reduced the amount of advanced biofuels required to be used simply because there is not yet enough commercial production available.

States can also ask for a waiver – and some have this summer. They believe the drought has caused enough of a shortage in the corn supply that it will cause economic harm to people in their state.

Time will tell how EPA decides on the waiver, but already the ethanol industry is reducing production. The Nebraska Ethanol Board, for example, said in August that the ethanol plants in the state were only operating at 70 percent of capacity, and nationally production was down 20 percent from the beginning of the year – a two-year low.

“In the past when there was a drought, there were only the livestock and export sectors who could cut back on corn,” Holzfaster said. “Now, the ethanol industry can also reduce demand for corn, providing another channel for market response. In the end, the market will adjust.”



RFS: Fill up on the facts

- The Nebraska Public Power District said 7,700 Nebraskans are **employed** directly and indirectly as a result of the ethanol industry and that it **contributes** more than \$50 million dollars in tax revenues to state and local governments.
- The ethanol industry helped spur a significant **investment** in research and development in corn seed and production technology, meaning farmers are capable of growing more corn more sustainably.
- Ethanol only uses the starch portion of the corn kernel. This means one-third of every bushel is returned to the livestock feed supply in the form of **distillers grains**, which is full of protein, fat, fiber and other nutrients.
- Because of the high nutritional value of distillers grains, cattle producers use less expensive roughage in their feed, **saving money**.
- Without the ethanol industry **encouraging** production, farmers would have never planted more acres to corn – and there would be no distillers grains to feed. The results would be even more difficult in a drought year.
- The RFS has helped diversify and support markets for corn, which **saves billions** of dollars in terms of federal crop supports. It also supports Nebraska livestock producers who are nearer the source of corn – and distillers grains.



As more biofuels are produced, fuel stations will be able to offer higher blends of ethanol to the growing number of flex fuel vehicles on the road.

Heard of a RIN?



No, it's not some texting-induced acronym. It stands for “Renewable Identification Numbers.”

Fuel refiners receive RINs when they use more renewable fuels than required. Because refiners used extra renewable fuels last year, there is a surplus 2.5 billion gallons worth of RINs available to use. That means if ethanol producers slow down their production because of the drought, refiners can use RINs instead.

Refiners can even use more RINs than they have and make up the difference next year.

This is part of the flexibility of the RFS – and is one way ethanol producers and fuel blenders can use less ethanol to overcome difficult market conditions.

Food, Energy, Trade, Research, Conservation, Jobs

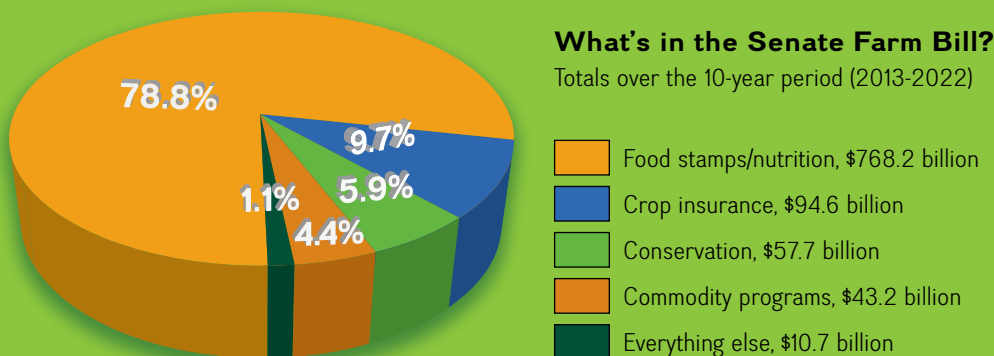
What's the ~~Farm~~ Bill about?

Calling it the "farm bill" makes you believe its impact is limited to farms. Yet it's so much more! It's really a jobs bill, a food bill, a conservation bill, a research bill, an energy bill, a trade bill and more.

The bottom line: It's a bill that affects every citizen. It's a bill that affects an industry that provides 23 million – or 1 in every 12 – American jobs.

The farm bill provides healthy foods to millions of schoolchildren and food options to families who need it. Market access and development programs expand trade with valuable foreign markets. It supports research at universities across the country and backs conservation programs that help protect waterways and natural resources.

The 2012 bill passed by the Senate (chart) also reduces spending significantly compared to previous years.



Act today!

The Senate completed its work and passed a farm bill this summer – but the U.S. House of Representatives has not. Congress needs to act – to finish a new farm bill that includes reauthorization of disaster assistance. We need your support to help make it happen.

Go to **FarmBillNow.com** to tell your legislators and sign a petition. You can also easily Tweet your representatives with the #farmbillnow hashtag and write a message on their Facebook page.

If you see your Congressional representative or their staff at a meeting in Nebraska, encourage them to support passage of a new farm bill with reauthorization of disaster assistance. It's a piece of legislation that's vital for the country, as it goes well beyond the farm.



District 1
Dave Nielsen
Lincoln, NE



District 6
Dennis Gengenbach
Smithfield, NE



District 2
Mark Jagels
Davenport, NE



District 7
David Merrell
St. Edward, NE



District 3
Curtis Friesen
Henderson, NE



District 8
Jon Holzfaster
Paxton, NE



District 4
Bob Dickey
Laurel, NE



At-large
Alan Tiemann
Seward, NE



District 5
Tim Scheer
St. Paul, NE



Nebraska Corn Board members represent the eight districts indicated on the map and are appointed by the Governor. One at-large member is elected by the other Board members.



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